

FERRON CITY
FINANCIAL STATEMENTS
JUNE 30, 2006

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
Ferron City
Ferron, Utah 84523

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ferron City as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Ferron City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2006, on our consideration of Ferron City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, condition assessment of the City's infrastructure and budgetary comparison information on pages 4 through 13, 46 and 47 through 50 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

July 20, 2006
Richfield, Utah

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is used to assist in formatting, for easier reading)

FERRON CITY MANAGEMENT'S DISCUSSION AND ANALYSIS For The Year Ended June 30, 2006

This discussion of Ferron City's financial performance provided an overview of the City's financial activities for the year ending June 30, 2006. This report is in conjunction with the City's financial statements.

The purpose of the City is to provide general services to its residents which includes general government, public public safety, highways and public improvements, parks and recreation, and cemetery.

Financial Highlights

- * The assets of Ferron City exceeded its liabilities as of the close of the most recent year by \$7,372,517 (net assets). Of this amount, \$522,258 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- * The government's total net assets decreased by \$4,504. The revenues were more than the adopted budgeted amounts, and expenditures were less than the adopted budgeted amounts in the general fund.
- * At the close of the current year, the Ferron City governmental funds reported combined ending fund balances of \$361,849, an increase of \$73,276 in comparison with the prior year. Approximately 97 percent of this total amount, \$351,849 is available for spending at the government's discretion (unreserved fund balance).
- * At the end of the current year, unreserved fund balance for the general fund was \$127,719, or 30 percent of total general fund expenditures.
- * Ferron City's total debt decreased by \$41,572 during the current year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Ferron City's basic financial statements. Ferron City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of Ferron City's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of Ferron City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Ferron City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Ferron City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

The governmental activities of Ferron City include general government, public safety, highways and public improvements, parks and recreation, and economic development. The business-type activities of Ferron City are water, sewer, and secondary water operations.

Refer to the table of contents for the location of the government-wide financial statements.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Ferron City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Ferron City can be divided into two categories: governmental funds and enterprise funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statement, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balance of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditure, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Ferron City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, municipal building authority and golf course fund all of which are considered to be major funds. Data from the other governmental fund, the capital project fund, is presented as a non-major fund. Individual fund data for this non-major governmental fund is provided elsewhere in this report.

Ferron City adopts an annual appropriated budget for all its governmental funds. Budgetary comparison statements have been provided for the general fund and major special revenue funds to demonstrate compliance with those budgets.

Refer to the table of contents for the location of the basic governmental fund financial statements.

Proprietary Funds

Ferron City maintains three types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. A combining statement for these three funds is shown elsewhere in this report.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, sewer, and secondary water which are all considered to be a major funds of Ferron City.

Refer to the table of contents for the location of the basic proprietary fund financial statements.

Notes To The Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are part of the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning Ferron City.

The combining statements referred to earlier in connection with the non-major governmental fund and the major enterprise funds is presented immediately following the required supplementary information.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Ferron City, assets exceeded liabilities by \$7,372,517 at the close of the most recent fiscal year. By far the largest portion of Ferron City's net assets (94 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. Ferron City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Ferron City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital themselves cannot be used to liquidate these liabilities.

Ferron City's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and Other Assets	375,178	308,292	229,070	190,798	604,248	499,090
Capital Assets	5,627,532	5,768,991	1,647,187	1,659,788	7,274,719	7,428,779
Total Assets	6,002,710	6,077,283	1,876,257	1,850,586	7,878,967	7,927,869
Long-Term Liabilities	406,487	483,364	443,852	47,528	850,339	530,892
Other Liabilities	57,343	19,719	62,598	263	119,941	19,982
Total Liabilities	463,830	503,083	506,450	47,791	970,280	550,874
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	5,183,204	5,285,627	1,594,617	1,612,261	6,777,821	6,897,888
Restricted	62,438	109,850	10,000	40,000	72,438	149,850
Unrestricted	293,238	178,723	229,020	150,534	522,258	329,257
Total Net Assets	5,538,880	5,574,200	1,833,637	1,802,795	7,372,517	7,376,995

A portion of Ferron City's net assets (1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$293,238) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the year, Ferron City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

Governmental Activities

Governmental activities decreased Ferron City's net assets by \$35,346. Key elements of this decrease follows:

Ferron City's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for Services	332,711	267,646	369,080	347,874	701,791	615,520
Operating Grants	105,781	67,905	-	-	105,781	67,905
Capital Grants	-	59,770	-	-	-	59,770
General Revenues:						
Property Taxes	57,799	55,828	-	-	57,799	55,828
Other Taxes	182,829	183,828	-	-	182,829	183,828
Bond Proceeds	-	109,500	-	-	-	109,500
Unrestricted Investment Earnings	18,907	9,782	-	-	18,907	9,782
Total Revenues	698,027	754,259	369,080	347,874	1,067,107	1,102,133
Expenses:						
General Government	201,532	231,658	-	-	201,532	231,658
Public Safety	78,457	53,289	-	-	78,457	53,289
Highways and Public Improvements	108,969	106,071	-	-	108,969	106,071
Parks and Recreation	335,611	260,401	-	-	335,611	260,401
Cemetery	-	12,312	-	-	-	12,312
Interest on Long-Term Debt	8,804	7,876	1,731	3,319	10,535	11,195
Water, Sewer & Secondary	-	-	336,507	337,030	336,507	337,030
Total Expenses	733,373	671,607	338,238	340,349	1,071,611	1,011,956
Increase in Net Assets Before Transfers	(35,346)	82,652	30,842	7,525	(4,504)	90,177
Transfers	-	40,000	-	(40,000)	-	-
Increase in Net Assets	(35,346)	122,652	30,842	(32,475)	(4,504)	90,177
Net Assets - Beginning	5,574,200	5,451,548	1,802,795	1,835,270	7,376,995	7,286,818
Net Total Net Assets	5,538,854	5,574,200	1,833,637	1,802,795	7,372,491	7,376,995

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. Some noteworthy exceptions, however, were Ferron City's purchase of equipment in the road department for \$13,000.

Business-Type Activities

Business-type activities increased Ferron City's net assets by \$30,842 accounting for 0 percent of the total decrease in the government's net assets. A key element of this decrease is as follows:

- * The city purchased 18 shares of Ferron Irrigation Water Stocks for \$23,400 during the 2005-06 Fiscal Year.
- * The depreciation in the enterprise funds remained the same as the prior year.

Financial Analysis of the Government's Funds

As noted earlier, Ferron City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of Ferron City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing Ferron City's financing requirements. In particular *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the year.

At the end of the year, Ferron City's governmental funds reported combined ending fund balances of \$361,849 a decrease of \$73,276 in comparison with the prior year. Approximately 97 percent of this amount (\$351,849) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed; \$10,000 to Bond Reserve.

The general fund is the chief operating fund of Ferron City. At the end of the current year, unreserved fund balance of the general fund was \$127,719 while total fund balance was also \$127,719. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 30 percent of total general fund expenditures, while total fund balance represents 30 percent of that same amount.

Proprietary Funds

Ferron City's proprietary funds provides the same type of information found in the government-wide financial statements but in more detail.

Unrestricted net assets of the water, sewer and secondary water funds at the end of the year were \$229,020. Other factors concerning the finances of these funds has already been addressed in the discussion of Ferron City's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget of \$57,676 increase can be briefly summarized as follows:

- * \$10,950 decrease in general government.
- * \$15,388 increase in public safety.
- * \$19,313 increase in highways and public improvements.
- * \$19,925 increase in culture and recreation.
- * \$14,000 increase in nondepartmental.

Of this decrease, the none was funded out of prior year unreserved fund balance. During the year, however, actual revenues were more than budgeted revenues by \$22,205 and actual expenditures were less than budgeted expenditures by \$36,147 resulting in a net increase in fund balance of \$58,352.

Capital Asset and Debt Administration

Capital Assets

Ferron City's investment in capital assets for its governmental activities as of June 30, 2006, was \$5,627,532 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment and infrastructure, which includes roads, highways, sidewalks, curb and gutter and bridges.

The total decrease in Ferron City's investment in capital assets for the current year was \$141,485. Major capital asset events during the current year included the following:

- * 1994 International Dump Truck for \$13,000

Also, the City has elected to use the modified approach to account for its infrastructure assets, such as roads sidewalks and curb and gutter. That information can be found in the required supplemental information following the notes to the financial statements.

Ferron City's Capital Assets
(net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	231,233	231,233	58,204	58,204	289,437	289,437
Water Shares	-	-	1,034,667	1,011,267	1,034,667	1,011,267
Infrastructure	3,688,546	3,688,546	-	-	3,688,546	3,688,546
Buildings	1,393,407	1,459,895	-	-	1,393,407	1,459,895
Improvements Other than Buildings	125,784	168,511	544,316	590,317	670,100	758,828
Equipment	188,562	220,806	-	-	188,562	220,806
Total	<u>5,627,532</u>	<u>5,768,991</u>	<u>1,637,187</u>	<u>1,659,788</u>	<u>7,264,719</u>	<u>7,428,779</u>

Additional information on Ferron City's capital assets can be found in the notes to the financial statements.

Long -Term Debt

At the end of the current year, Ferron City had total bonded debt outstanding of \$385,570. The debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds) and lease obligations payable of \$98,928.

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue Bonds	343,000	359,857	42,570	47,528	385,570	407,385
Lease Obligations	98,928	118,686	-	-	98,928	118,686
Total Long-Term Debt	<u>441,928</u>	<u>478,543</u>	<u>42,570</u>	<u>47,528</u>	<u>484,498</u>	<u>526,071</u>

State statutes limit the amount of general obligation debt a governmental entity may issue to 4 percent of its total fair market value of taxable property in the City. The City has no general obligation debt.

Additional information on Ferron City's long-term debt can be found in the notes of the financial statements.

Economic Factors and Next Year's Budgets and Rates

- * The City raised the water and sewer rates 3% each beginning July 1, 2005. This increase was a pass-through from the Castle Valley Special Service District, who maintains the City's water and sewer facilities.

This factor was considered in preparing Ferron City's budget for the 2005-2006 fiscal year.

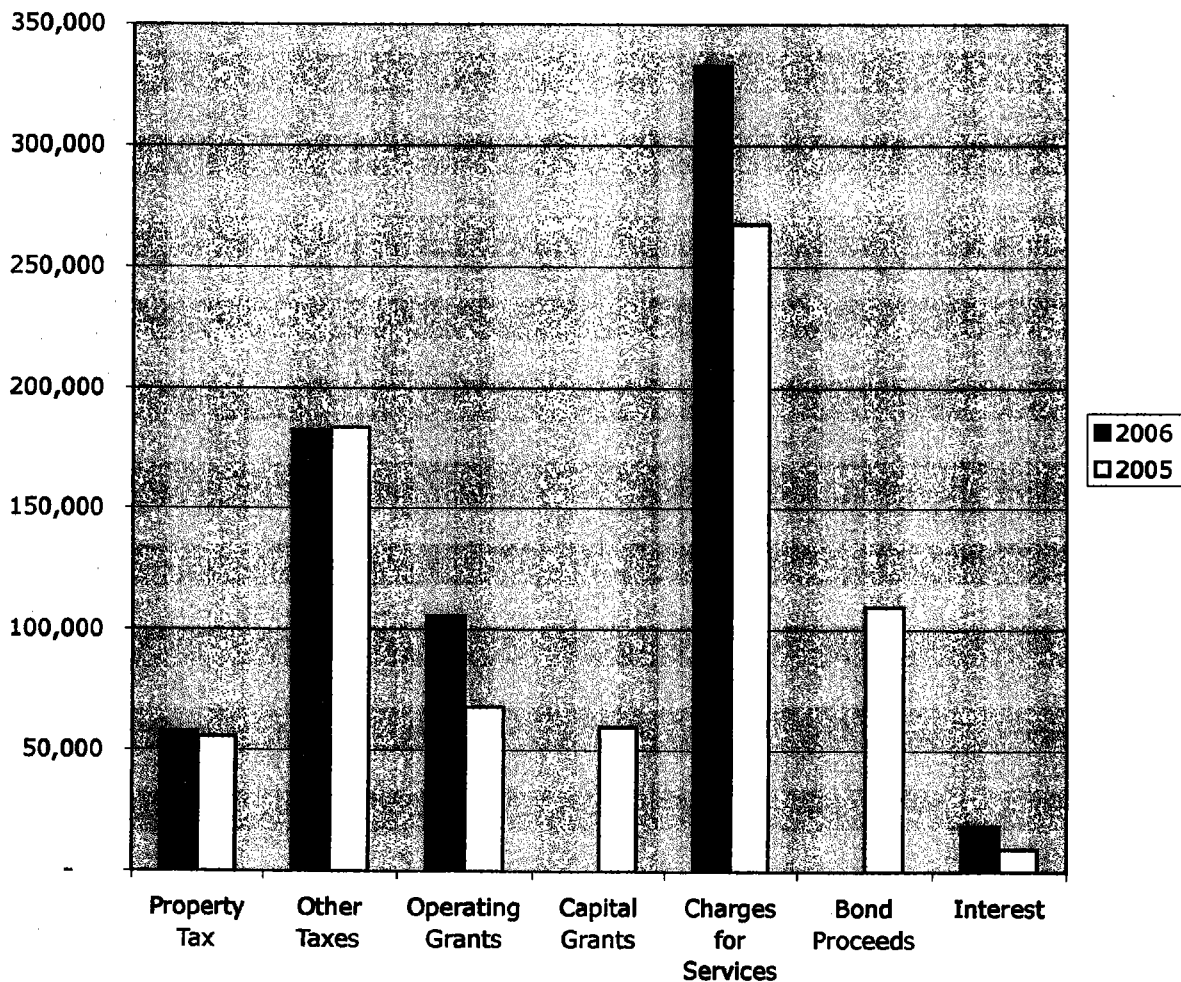
Request for Information

This financial report is designed to provide a general overview of Ferron City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Ferron City Recorder, P.O. Box 820, Ferron, Utah, 84523.

Ferron City
Governmental Revenues
For The Fiscal Years Ending June 30, 2006 and 2005

	2006	2005
Property Tax	57,799	55,828
Other Taxes	182,829	183,828
Operating Grants	105,781	67,905
Capital Grants	-	59,770
Charges for Services	332,711	267,646
Bond Proceeds	-	109,500
Interest	18,907	9,782
Total Revenues	698,027	754,259

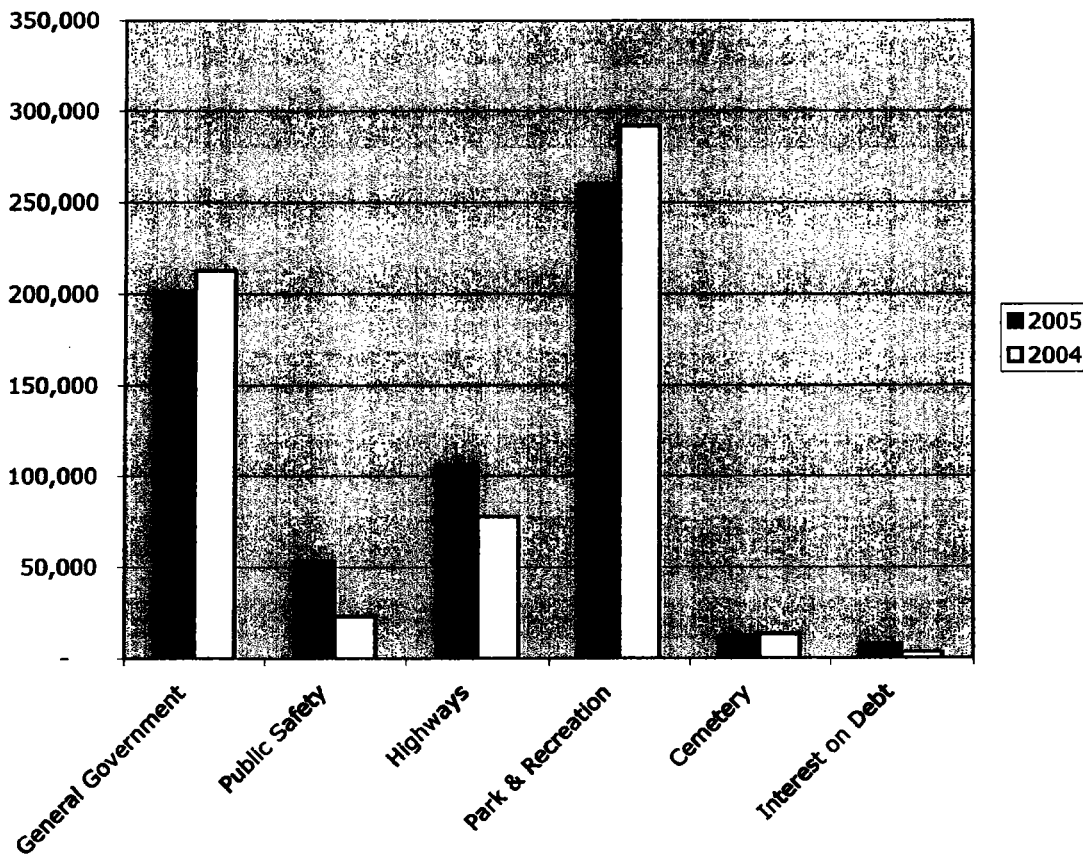
Governmental Revenues



Ferron City
Governmental Expenditures
For The Fiscal Years Ending June 30, 2005 and 2004

	2005	2004
General Government	201,532	212,638
Public Safety	53,289	23,044
Highways	106,071	77,787
Park & Recreation	260,401	291,794
Cemetery	12,312	13,360
Interest on Debt	7,876	3,423
Total Expenditures	641,481	622,046

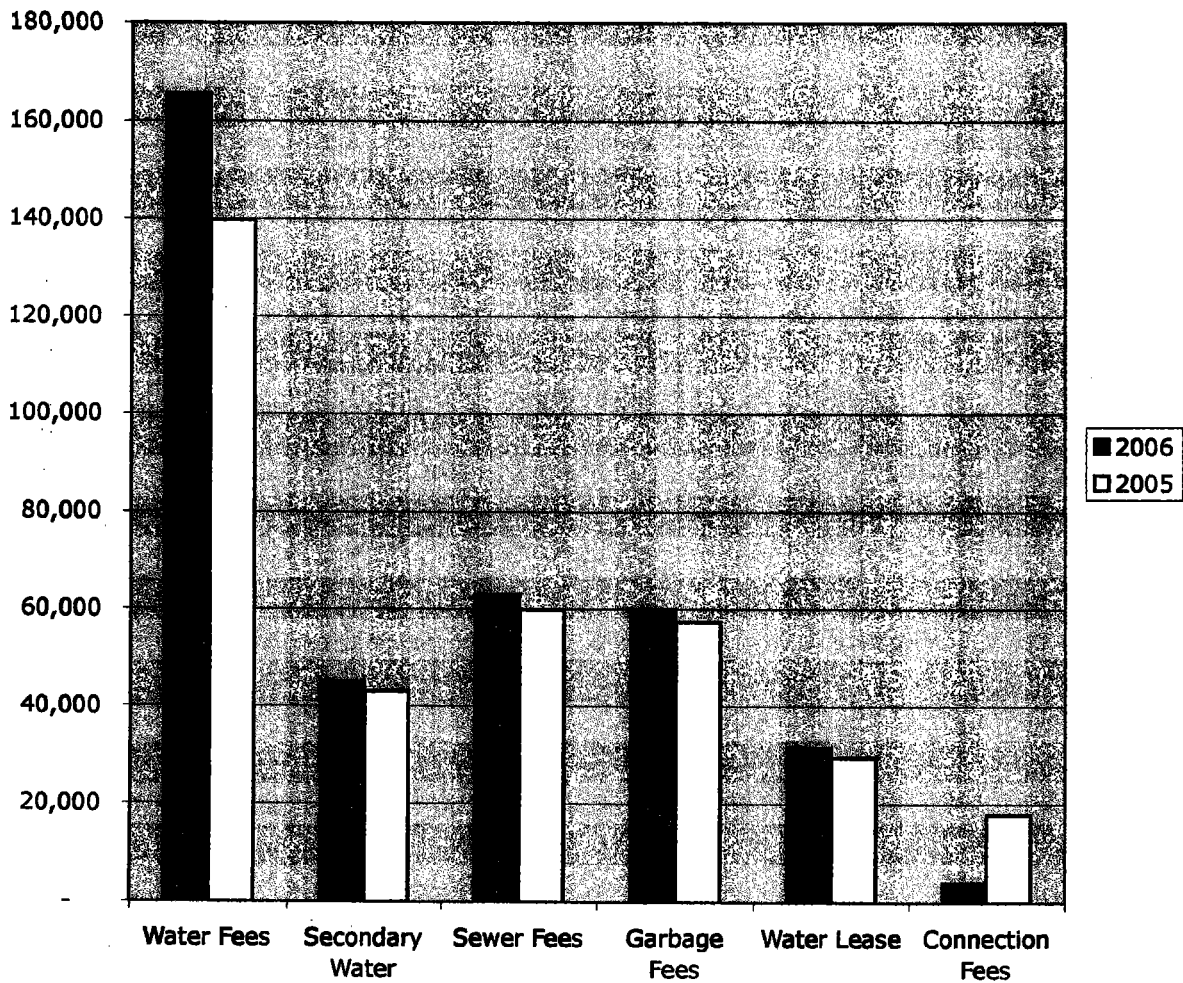
Governmental Expenditures



Ferron City
Business-Type Revenues
For The Fiscal Years Ending June 30, 2006 and 2005

	2006	2005
Water Fees	165,560	139,832
Secondary Water	44,976	43,124
Sewer Fees	62,957	59,931
Garbage Fees	59,994	57,428
Water Lease	31,549	29,615
Connection Fees	4,045	17,944
Total Revenues	369,081	347,874

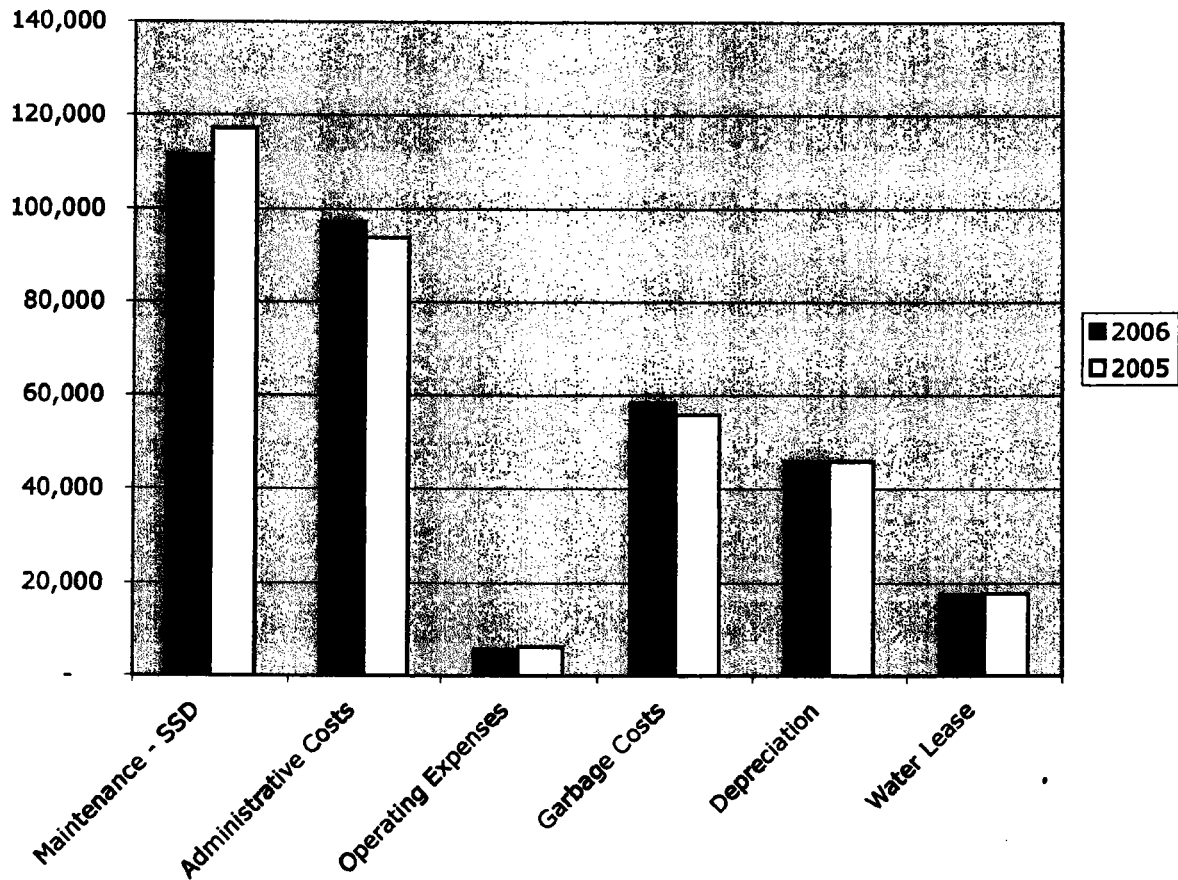
Business-Type Revenues



Ferron City
Business Type Expenditures
For The Fiscal Years Ending June 30, 2006 and 2005

	2006	2005
Maintenance - SSD	111,499	117,268
Administrative Costs	97,197	93,770
Operating Expenses	5,703	6,336
Garbage Costs	58,438	55,910
Depreciation	46,000	46,000
Water Lease	17,670	17,746
Total Expenditures	336,507	337,030

Business-Type Expenditures



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BASIC FINANCIAL STATEMENTS

**FERRON CITY
STATEMENT OF NET ASSETS**

June 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	362,707	197,372	560,079
Accounts Receivable (Net)	-	31,698	31,698
Due From Other Government Units	12,471	-	12,471
Total Current Assets	375,178	229,070	604,248
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	-	10,000	10,000
Capital Assets (Net of Accumulated Depreciation):			
Land	231,233	58,204	289,437
Water Shares	-	1,034,667	1,034,667
Buildings	1,393,408	-	1,393,408
Improvements Other Than Buildings	125,757	544,316	670,073
Equipment	188,562	-	188,562
Infrastructure	3,688,546	-	3,688,546
Total Noncurrent Assets	5,627,506	1,647,187	7,274,693
TOTAL ASSETS	6,002,684	1,876,257	7,878,941
LIABILITIES			
Current Liabilities:			
Accounts Payable	13,329	-	13,329
Deposits Payable	-	50	50
Bond Interest Payable	2,400	-	2,400
Lease Obligations - Due Within One Year	29,614	-	29,614
Revenue Bonds Payable - Due Within One Year	12,000	5,205	17,205
Total Current Liabilities	57,343	5,255	62,598
Noncurrent Liabilities:			
Lease Obligations - Due More Than One Year	141,314	-	141,314
Revenue Bonds Payable - Due More Than One Year	259,000	37,365	296,365
Compensated Absences	6,173	-	6,173
Total Noncurrent Liabilities	406,487	37,365	443,852
TOTAL LIABILITIES	463,830	42,620	506,450
NET ASSETS			
Investment in Capital Assets, Net of Debt	5,183,204	1,594,617	6,777,821
Restricted For:			
Bond Retirement	16,000	10,000	26,000
Perpetual Care	46,438	-	46,438
Unrestricted	293,212	229,020	522,232
TOTAL NET ASSETS	5,538,854	1,833,637	7,372,491
TOTAL LIABILITIES AND NET ASSETS	6,002,684	1,876,257	7,878,941

The notes to the financial statements are an integral part of this statement.

**FERRON CITY
STATEMENT OF ACTIVITIES**

For The Fiscal Year Ended June 30, 2006

Function/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Primary Government	
					Governmental Activities	Business-Type Activities
Governmental Activities:						
General Government	201,532	149,357	-	-	(52,175)	-
Public Safety	78,457	13,000	15,438	-	(50,019)	-
Highways and Public Improvements	108,969	-	90,343	-	(18,626)	-
Park and Recreation	335,611	170,354	-	-	(165,257)	-
Interest on Long-Term Debt	8,804	-	-	-	(8,804)	(1,731)
Total Governmental Activities	733,373	332,711	105,781	-	(294,881)	(1,731)
Business-Type Activities:						
Utility Systems	336,507	369,080	-	-	-	32,573
Total Primary Government	1,069,880	701,791	105,781	-	(294,881)	30,842
General Revenues:						
Property Taxes					57,799	-
Fee-In-Lieu of Property Taxes					19,491	-
Sales Taxes					152,690	-
Franchise Taxes					10,648	-
Unrestricted Investment Earnings					18,907	-
Total General Revenues					259,535	-
Change in Net Assets					(35,346)	30,842
Net Assets - Beginning					5,574,200	1,802,795
Net Assets - Ending					5,538,854	1,833,637

The notes to the financial statements are an integral part of this statement.

**FERRON CITY
BALANCE SHEET
GOVERNMENTAL FUNDS**

For The Fiscal Year Ended June 30, 2006

	<u>General Fund</u>	<u>Golf Course</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS				
Cash and Cash Equivalents	127,913	46,055	188,739	362,707
Due From Other Government Units	<u>12,471</u>	<u>-</u>	<u>-</u>	<u>12,471</u>
TOTAL ASSETS	<u><u>140,384</u></u>	<u><u>46,055</u></u>	<u><u>188,739</u></u>	<u><u>375,178</u></u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	<u>12,665</u>	<u>664</u>	<u>-</u>	<u>13,329</u>
Total Liabilities	<u><u>12,665</u></u>	<u><u>664</u></u>	<u><u>-</u></u>	<u><u>13,329</u></u>
Fund Balances:				
Reserved For:				
Bond Reserve	-	10,000	-	10,000
Unreserved, Reported In:				
General Fund	127,719	-	-	127,719
Special Revenue Funds	-	35,391	100,220	135,611
Capital Project Fund	<u>-</u>	<u>-</u>	<u>88,519</u>	<u>88,519</u>
Total Fund Balance	<u><u>127,719</u></u>	<u><u>45,391</u></u>	<u><u>188,739</u></u>	<u><u>361,849</u></u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>140,384</u></u>	<u><u>46,055</u></u>	<u><u>188,739</u></u>	<u><u>375,178</u></u>

The notes to the financial statements are an integral part of this statement.

FERRON CITY
BALANCE SHEET RECONCILIATION TO STATEMENT OF NET ASSETS

June 30, 2006

Total Fund Balances - Governmental Fund Types	361,849
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Land	231,233	
Buildings	1,393,407	
Improvements	125,784	
Equipment	188,562	
Infrastructure	<u>3,688,546</u>	
 Total		 5,627,532

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:

Lease Obligations Payable	(170,928)	
Revenue Bonds Payable	(271,000)	
Bond Interest Payable	(2,400)	
Compensated Absences	<u>(6,173)</u>	
 Total		 <u>(450,501)</u>

Net Assets of Government Activities	<u><u>5,538,880</u></u>
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FERRON CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For The Fiscal Year Ended June 30, 2006

	<u>General Fund</u>	<u>Golf Course</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Revenues:				
Taxes	240,628	-	-	240,628
Licenses and Permits	3,832	-	-	3,832
Intergovernmental Revenue	105,781	-	-	105,781
Charges for Services	120,132	160,419	-	280,551
Interest	18,766	-	141	18,907
Miscellaneous Revenues	<u>20,739</u>	<u>-</u>	<u>27,589</u>	<u>48,328</u>
 Total Revenues	 <u>509,878</u>	 <u>160,419</u>	 <u>27,730</u>	 <u>698,027</u>
Expenditures:				
Current:				
General Government	185,613	-	-	185,613
Public Safety	53,090	-	-	53,090
Highway and Public Improvements	98,870	-	3,323	102,193
Parks and Recreation	71,596	150,424	5,816	227,836
Capital Outlay	13,000	-	-	13,000
Debt Service:				
Principal	7,857	19,758	9,000	36,615
Interest	<u>-</u>	<u>5,586</u>	<u>818</u>	<u>6,404</u>
 Total Expenditures	 <u>430,026</u>	 <u>175,768</u>	 <u>18,957</u>	 <u>624,751</u>
 Excess Revenues Over (Under) Expenditures	 <u>79,852</u>	 <u>(15,349)</u>	 <u>8,773</u>	 <u>73,276</u>
Other Financing Sources (Uses):				
Transfers In	-	21,500	-	21,500
Transfers Out	<u>(21,500)</u>	<u>-</u>	<u>-</u>	<u>(21,500)</u>
 Total Other Financing	 <u>(21,500)</u>	 <u>21,500</u>	 <u>-</u>	 <u>-</u>
 Net Change In Fund Balance	 58,352	 6,151	 8,773	 73,276
 Fund Balance - Beginning	 <u>69,367</u>	 <u>39,240</u>	 <u>179,966</u>	 <u>288,573</u>
 Fund Balance - Ending	 <u><u>127,719</u></u>	 <u><u>45,391</u></u>	 <u><u>188,739</u></u>	 <u><u>361,849</u></u>

The notes to the financial statements are an integral part of this statement.

FERRON CITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For The Fiscal Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities
are different because:

Net Changes in Fund Balances - Total Governmental Funds	73,276
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Governmental funds report capital outlays as expenditures. However, in
the statement of activities the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense. This is the
amount by which capital outlays exceeded depreciation in the current period:

Capital Outlays	13,000	
Depreciation Expense	<u>(154,485)</u>	
Total		(141,485)

Some expenses reported in the statement of activities do not require the
use of current financial resources and, therefore, are not reported as
expenditures in governmental funds:

Lease Payments	19,758	
Principal Payment on Bonds	16,857	
Compensated Absences	<u>(1,352)</u>	
Total		35,263

Some expenses reported in the statement of activities do not require the
use of current financial resources and, therefore, are not reported as
expenditures in governmental funds.

Bond Interest Expense		<u>(2,400)</u>
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Changes In Net Assets of Governmental Activities		<u><u>(35,346)</u></u>
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**FERRON CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUND**

June 30, 2006

	Business-Type Activity Enterprise Fund			
	Water System	Sewer System	Secondary Water System	Total
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	74,510	42,784	80,078	197,372
Accounts Receivable	22,105	5,875	3,718	31,698
Total Current Assets	96,615	48,659	83,796	229,070
Noncurrent Assets:				
Investments - Restricted:				
Bond Reserves	-	10,000	-	10,000
Capital Assets: (Net of Accum. Depreciation)				
Land	20,000	38,204	-	58,204
Water Shares	1,034,667	-	-	1,034,667
Water and Sewer Systems	369,706	174,610	-	544,316
Total Noncurrent Assets	1,424,373	222,814	-	1,647,187
TOTAL ASSETS	1,520,988	271,473	83,796	1,876,257
LIABILITIES:				
Current Liabilities:				
Customer Deposits	50	-	-	50
Bonds Payable - Due Within One Year	-	5,205	-	5,205
Total Current Liabilities	50	5,205	-	5,255
Noncurrent Liabilities:				
Bonds Payable - Due In More Than One Year	-	37,365	-	37,365
TOTAL LIABILITIES	50	42,570	-	42,620
NET ASSETS:				
Invested in Capital Assets, Net of Related Debt	1,424,373	170,244	-	1,594,617
Restricted for Bond Retirement	-	10,000	-	10,000
Unrestricted	96,565	48,659	83,796	229,020
TOTAL NET ASSETS	1,520,938	228,903	83,796	1,833,637
TOTAL LIABILITIES AND NET ASSETS	1,520,988	271,473	83,796	1,876,257

The notes to the financial statements are an integral part of this statement.

FERRON CITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND

June 30, 2006

	Business-Type Activity Enterprise Fund			Total
	Water System	Sewer System	Secondary Water System	
Operating Revenues:				
Charges for Sales and Services:				
Water Sales	165,560	-	-	165,560
Secondary Water Sales	-	-	44,976	44,976
Sewer Sales	-	62,957	-	62,957
Garbage Fees	59,994	-	-	59,994
Connection Fees	1,400	1,645	1,000	4,045
Water Lease Revenue	31,549	-	-	31,549
Total Operating Revenues	258,503	64,602	45,976	369,081
Operating Expenses:				
Special Service District	60,271	37,932	13,296	111,499
Administrative Costs to General Fund	68,750	13,574	14,873	97,197
Materials, Supplies and Services	5,703	-	-	5,703
Garbage Collections	58,438	-	-	58,438
Depreciation	33,000	13,000	-	46,000
Water Lease Costs	16,580	-	1,090	17,670
Total Operating Expenses	242,742	64,506	29,259	336,507
Operating Income	15,761	96	16,717	32,574
Nonoperating Revenues (Expenses):				
Interest on Revenue Bonds	-	(1,731)	-	(1,731)
Change in Net Assets	15,761	(1,635)	16,717	30,843
Total Net Assets - Beginning	1,505,177	230,538	67,079	1,802,794
Total Net Assets - Ending	1,520,938	228,903	83,796	1,833,637

The notes to the financial statements are an integral part of this statement.

**FERRON CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND**

June 30, 2006

	Business-Type Activity Enterprise Fund			
	Water System	Sewer System	Secondary Water System	Total
Cash Flows From Operating Activities:				
Receipts From Customers	251,101	64,076	45,642	360,819
Payments to Suppliers	(209,955)	(51,506)	(29,259)	(290,720)
Net Cash Provided by Operating Activities	<u>41,146</u>	<u>12,570</u>	<u>16,383</u>	<u>70,099</u>
Cash Flows From Capital and Related Financing Activities:				
Principal Paid on Capital Debt	-	(4,957)	-	(4,957)
Interest Paid on Capital Debt	-	(1,732)	-	(1,732)
Capital Outlay	(23,400)	-	-	(23,400)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(23,400)</u>	<u>(6,689)</u>	<u>-</u>	<u>(30,089)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	17,746	5,881	16,383	40,010
Cash and Cash Equivalents - Beginning	<u>56,764</u>	<u>46,903</u>	<u>63,695</u>	<u>167,362</u>
Cash and Cash Equivalents - Ending	<u><u>74,510</u></u>	<u><u>52,784</u></u>	<u><u>80,078</u></u>	<u><u>207,372</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) By Operating Activities:				
Operating Income	<u>15,761</u>	<u>96</u>	<u>16,717</u>	<u>32,574</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) By Operating Activities:				
Depreciation	33,000	13,000	-	46,000
Increase (Decrease) in Operating Assets:				
(Increase) Decrease in Accounts Receivable	(7,402)	(526)	(334)	(8,262)
Increase (Decrease) in Accrued Liabilities	(213)	-	-	(213)
Total Adjustments	<u>25,385</u>	<u>12,474</u>	<u>(334)</u>	<u>37,525</u>
Net Cash Provided (Used) by Operating Activities	<u><u>41,146</u></u>	<u><u>12,570</u></u>	<u><u>16,383</u></u>	<u><u>70,099</u></u>

The notes to the financial statements are an integral part of this statement.

FERRON CITY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Ferron City conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies:

The accompanying basic financial statements present the financial position of various fund types and the results of operations of the various fund types. The basic financial statements are presented for the year ended June 30, 2006.

The following is a summary of the more significant policies:

A. Reporting Entity

Ferron City is a municipal corporation in Emery County, Utah. It is governed by an elected Mayor and a five member council. As required by generally accepted accounting principles, these financial statements are of the primary government, Ferron City, the reporting entity. The City has no component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., statement of net assets and statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

FERRON CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting as are the proprietary fund and the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Ferron City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenues items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Golf Course Fund accounts for monies received and expended for golf course activities.

The government also reports the following non-major governmental fund:

The Municipal Building Authority Fund which accounts for the construction of major fixed assets then leased to Ferron City for City purposes.

Capital Projects Fund account for the acquisition of fixed assets or construction of major capital improvements not being financed by proprietary or nonexpendable trust funds.

The Perpetual Care Permanent Fund is used to account for principal trust amounts received and related interest income. The interest portion of the trust can be used to maintain the cemetery.

FERRON CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Government reports the following Proprietary Funds:

The Utility Funds accounts for the activities of the City water and sewer operations. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer funds are charges to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

Deposits and Investments:

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

Investments for the government, as well as for its component units, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

**FERRON CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Improvements Other Than Buildings	40 Years
Equipment	7 Years

Long-Term Obligations:

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

In the fund financial statement, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, if any, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

FERRON CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgets and Budgetary Accounting:

Annual budgets are prepared and adopted by ordinance by total for each department, in accordance with State law, by the Mayor and City council on or before June 22 for the following Fiscal year beginning July 1. Estimated revenues and appropriations may be increased or decreased by resolution of the City Council at any time during the year. A public hearing must be held prior to any proposed increase in a fund's appropriations. Budgets include activities in the General Fund. The level of the City's budgetary control (the level at which the Town's expenditures cannot legally exceed appropriations) is established at the department level. Each department head is responsible for operating within the budget for their department. All annual budgets lapse at fiscal year end.

Utah State law prohibits the appropriation of unreserved General Fund balance to an amount less than 5% of the General Fund revenues. The 5% reserve that cannot be budgeted is used to provide working capital until tax revenue is received, to meet emergency expenditures, and to cover unanticipated deficits. Any unreserved General Fund balance greater than 18% of the next year's budgeted revenues must be appropriated within the following two years.

Once adopted, the budget may be amended by the City council without hearing provided the budgeted expenditures do not exceed budgeted revenues and appropriated fund balance. A public hearing must be held if the budgeted expenditures will exceed budgeted revenues and any fund balance which is available for budgeting. With the consent of the Mayor, department heads may reallocate unexpended appropriated balances from one expenditure account to another within that department during the budget year. Budgets for the General Fund are prepared on the modified accrual basis of accounting. Encumbrances are not used.

F. Property Taxes:

Property taxes are assessed and collected for the City by Emery County and remitted to the City shortly after collection. Property taxes become a lien on January 1 and are levied on the first Monday in August. Taxes are due and payable on November 1, and are delinquent after November 30. All dates are in the year of levy.

G. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FERRON CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents:."

Deposits:

At year end, the carrying amount of the City's deposits was \$60,452 and the bank balances were \$65,062. All of the bank balance was covered by federal depository insurance. Utah State statutes do not require deposits to be collateralized, however, financial institutions must be approved by the State Money Management Council. Cash on hand was \$200.

Cash and investments as of June 30, 2006, consist of the following:

	<u>Fair Value</u>
Cash On Hand	200
Demand Deposits	60,452
Investments - PTIF	498,944
Escrow Accounts	<u>10,483</u>
 Total Cash and Investments	 <u><u>570,079</u></u>

Cash and investments listed above are classified in the accompanying government-wide statement of net assets as follows:

Governmental Activities - Unrestricted	362,707
Business-Type Activities - Unrestricted	197,372
Business-Type Activities - Restricted	<u>10,000</u>
 Total Cash and Cash Equivalents	 <u><u>570,079</u></u>

The Utah Money Management Act (UMMA) established specific requirements regarding deposits of public funds by public treasurers. UMMA requires that City funds be deposited with a qualified depository which includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements specified in UMMA Section 51, Chapter 7. UMMA provides the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and also defines capital requirements which an Institution must maintain to be eligible to accept public funds. UMMA lists the criteria for investments and specifies the assets which are eligible to be invested in, and for some investments, the amount of time to maturity.

FERRON CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

UMMA enables the State Treasurer to operate the Public Treasurer's Investment Pool (PTIF). PTIF is managed by the Utah State Treasurer's investment staff and comes under the regulatory authority of the Utah Money Management Council. This council is comprised of a select group of financial professionals from units of local and state government and financial institutions doing business in the state. PTIF operations and portfolio composition is monitored at least semi-annually by Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations.

PTIF operations and portfolio composition is monitored at least semi-annually by Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations. Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares.

Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares.

Deposits and investments for local government are governed by the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7, "the Act") and by rules of the Utah Management Council ("the Council"). Following are discussions of the local government's exposure to various risks related to its cash management activities.

Custodial Credit Risk:

Deposits - Custodial credit risk for deposits is the risk that in the event of a bank failure, the local government's deposits may not be recovered. The local government's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the local government to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of June 30, 2006, \$0 of the local government's bank balances of \$65,062 were uninsured and uncollateralized.

Credit Risk:

Credit risk is the risk that the counterparty of an investment will not fulfill its obligations. The local government's policy for limiting the credit risk of investments is to comply with the Money Management Act.

FERRON CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

The local government is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

For the year ended June 30, 2006, the local governments has investments of \$498,944 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The local government manages its exposure to declines in fair value by investments mainly in the PTIF and by adhering to the Money Management Act. The act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Concentration of Credit Risk:

Concentration of credit risk the risk of loss attributed to the magnitude of a government's investments in a single issuer. PTIF falls under the constraints of UMMA in limiting concentrations of investments.

NOTE 3 - WATER SHARES

Ferron City owns stock in Ferron Canal and Reservoir Company. The change in water stock ownership during the year is summarized below:

	<u>Number of Shares</u>	<u>Cost</u>
Balance - Beginning of Year	1,504	1,011,267
Purchases	18	23,400
Contributed	<u>-</u>	<u>-</u>
Balance - End of Year	<u><u>1,522</u></u>	<u><u>1,034,667</u></u>

Ferron City maintains a policy of requiring one share of water stock for each culinary water connection granted. The estimated market value of the stock is greater than their cost.

FERRON CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	231,233	-	-	231,233
Infrastructure	<u>3,688,546</u>	<u>-</u>	<u>-</u>	<u>3,688,546</u>
 Total Capital Assets Not Being Depreciated	 <u>3,919,779</u>	 <u>-</u>	 <u>-</u>	 <u>3,919,779</u>
 Capital Assets Being Depreciated:				
Buildings	2,697,069	-	-	2,697,069
Improvements Other Than Bldgs	896,089	-	-	896,089
Machinery and Equipment	<u>439,109</u>	<u>13,000</u>	<u>-</u>	<u>452,109</u>
 Total Capital Assets Being Depreciated	 <u>4,032,267</u>	 <u>13,000</u>	 <u>-</u>	 <u>4,045,267</u>
 Less Accumulated Depreciation For:				
Buildings	1,237,174	66,487	-	1,303,661
Improvements Other Than Bldgs	727,578	42,754	-	770,332
Machinery and Equipment	<u>218,303</u>	<u>45,244</u>	<u>-</u>	<u>263,547</u>
 Total Accumulated Depreciation	 <u>2,183,055</u>	 <u>154,485</u>	 <u>-</u>	 <u>2,337,540</u>
 Total Capital Assets Being Depreciated (Net)	 <u>1,849,212</u>	 <u>(141,485)</u>	 <u>-</u>	 <u>1,707,727</u>
 Governmental Activities Capital Assets, Net	 <u>5,768,991</u>	 <u>(141,485)</u>	 <u>-</u>	 <u>5,627,506</u>

FERRON CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Business Type Activities:				
Capital Assets Not Being Depreciated:				
Land	58,204	23,400	-	81,604
Water Stock	<u>1,011,267</u>	<u>-</u>	<u>-</u>	<u>1,011,267</u>
 Total Capital Assets Not Being Depreciated	<u>1,069,471</u>	<u>23,400</u>	<u>-</u>	<u>1,092,871</u>
 Capital Assets Being Depreciated:				
Equipment	43,457	-	-	43,457
Utility Systems	<u>1,879,135</u>	<u>-</u>	<u>-</u>	<u>1,879,135</u>
 Total Capital Assets Being Depreciated	<u>1,922,592</u>	<u>-</u>	<u>-</u>	<u>1,922,592</u>
 Less Accumulated Depreciation For:				
Equipment	43,457	-	-	43,457
Utility Systems	<u>1,288,819</u>	<u>46,000</u>	<u>-</u>	<u>1,334,819</u>
 Total Accumulated Depreciation	<u>1,332,276</u>	<u>46,000</u>	<u>-</u>	<u>1,378,276</u>
 Total Capital Assets Being Depreciated (Net)	<u>590,316</u>	<u>(46,000)</u>	<u>-</u>	<u>544,316</u>
 Business Type Activities Capital Assets, Net	<u>1,659,787</u>	<u>(22,600)</u>	<u>-</u>	<u>1,637,187</u>
 Total Capital Assets	<u><u>7,428,778</u></u>	<u><u>(164,085)</u></u>	<u><u>-</u></u>	<u><u>7,264,693</u></u>

FERRON CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions of the Primary Government as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
General Government	14,567	-	14,567
Public Safety	25,366	-	25,366
Public Health	-	46,000	46,000
Highways and Public Improvements	6,776	-	6,776
Parks and Recreation	<u>107,776</u>	<u>-</u>	<u>107,776</u>
Total Depreciation Expense	<u>154,485</u>	<u>46,000</u>	<u>200,485</u>

NOTE 5 - LONG-TERM DEBT

Compensated Absences:

Compensated absences of Ferron City represent accrued vacation pay owed at June 30, 2006, in the amount of \$6,173. The following is a schedule of changes in compensated absences.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Compensated Absences	<u>4,821</u>	<u>1,352</u>	<u>-</u>	<u>6,173</u>

Governmental

Lease-Purchase Agreements:

Ferron City has entered into a lease-purchase agreement. These agreements contain a fiscal funding or cancellation clause which permits the City to terminate the agreements on an annual basis to ensure compliance with debt restrictions set forth in Article XIV Section 3 of the State Constitution.

The following leases are accounted for in the General Long-Term Debt Account Group:

FERRON CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Capital Lease - Golf Carts:

On March 1, 2003, the City entered into an operating lease with Yamaha Motor Corporation for 40 new golf carts replacing an existing lease executed in 2000. The terms of the lease call for six monthly payments of \$3,034.80 from May through October for the five years beginning in 2003 and ending in 2008. The City has the option at the end of the lease to purchase the golf carts for an additional \$48,000. The lease carries an interest rate of 5.6%. The cost of the carts was \$140,000. The balance at year end was \$85,612.

Terms of the repayment are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006/2007	15,957	3,187	19,144
2007/2008	16,642	2,473	19,115
2008/2009	53,013	179	53,192
Total	<u>85,612</u>	<u>5,839</u>	<u>91,451</u>

Capital Lease - Fairway Mower:

During the year the city obtained financing in the amount of \$23,730 for the purchase of a fairway mower for the golf course. The terms of the lease require monthly payments of \$424.14 which includes interest at 4.4%. The balance at year end was \$13,316.

The following is a schedule of debt service payments to maturity:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006/2007	4,657	444	5,101
2007/2008	4,866	283	5,149
2008/2009	3,793	70	3,863
Total	<u>13,316</u>	<u>797</u>	<u>14,113</u>

FERRON CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Lease-Revenue Bonds - Municipal Building Authority of Ferron City:

On February 22, 1993, the Ferron City Council created the Municipal Building Authority of Ferron City under section 11-29-3 of the Utah Code Annotated 1953. The purpose of the Building Authority is to finance the acquisition, construction of, and improvements to the municipal golf course, including a clubhouse, parking lot and sidewalks. The Building Authority has obtained leases with Ferron City for the lease of the golf course facilities when constructed. The proceeds of the leases will be used to retire the bonded indebtedness of the Building Authority. The Mayor and Ferron City Council are the trustees of the Building Authority.

On June 8, 1993, the Building Authority issued and sold lease-revenue bonds to the Community Impact Board of the State of Utah in the amount of \$185,500 to help finance these improvements. The Building Authority has written leases with Ferron City to insure the repayment of their bonded indebtedness. The balance at year end was \$72,000.

The terms of the repayment are as follows:

<u>October 1,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	9,000	-	9,000
2007	9,000	-	9,000
2008	9,000	-	9,000
2009	9,000	-	9,000
2010	9,000	-	9,000
2011	9,000	-	9,000
2012	9,000	-	9,000
2013	9,000	-	9,000
Total	<u>72,000</u>	<u>-</u>	<u>72,000</u>

The bond instrument also requires a reserve fund to accumulate at \$2,000 per year for five years, beginning October 1, 1994, reaching a maximum of \$10,000. Balance at June 30, 2006, is \$10,000 and fully funded.

FERRON CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 5 - LONG-TERM DEBT (CONTINUED)

CIB Revenue Bonds:

On August 7, 2003, the City obtained partial financing from the Permanent Community Impact Board by obtaining a \$333,715 grant and a \$169,357 loan to the Municipal Building Authority of Ferron City for the construction of a new fire station to service Ferron City. However, during 2004 the City obtained an additional loan for \$33,500. The Community Impact Board approved the retirement of the old bond and the City issued a new bond in the amount of \$202,857.

The bond requires 20 principal installments payable on January 1st of each year commencing on January 1, 2006. The bond carries the interest rate of 2.5%. The balance at year end was \$195,000.

The following is a summary of debt service charges to maturity:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006/2007	9,000	4,875	13,875
2007/2008	9,000	4,650	13,650
2008/2009	9,000	4,425	13,425
2009/2010	9,000	4,200	13,200
2010/2011	10,000	3,975	13,975
2012/2016	52,000	16,100	68,100
2017/2021	58,000	9,300	67,300
2022/2026	39,000	1,950	40,950
Total	<u>195,000</u>	<u>49,475</u>	<u>244,475</u>

The following sources of funding was available for the construction of the project:

<u>Agency</u>	<u>Cost Sharing</u>
PCIB Grant	338,715
PCIB Loan	169,357
Ferron City - Cash	50,480
Ferron City - In Kind	<u>71,472</u>
Total	<u>630,024</u>

The bond requires the City to place in a reserve fund \$166.67 per month for 72 months to a maximum reserve of \$12,000. The balance at year end was \$16,000.

FERRON CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Municipal Building Authority Bond:

On April 7, 2005 the Community Impact Board authorized a \$76,000 loan to the Municipal Building Authority of Ferron City for the construction of a open metal shed at the Fairground Park. The loan was evidenced by a lease revenue bond to be issued by the City and purchased by the Board. The terms of the loan require yearly payments with no interest. The balance at year end was \$76,000.

The following is a summary of debt service payments to maturity:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	3,000	-	3,000
2008	3,000	-	3,000
2009	3,000	-	3,000
2010	3,000	-	3,000
2011	4,000	-	4,000
2012/2016	20,000	-	20,000
2017/2021	20,000	-	20,000
2022/2026	20,000	-	20,000
Total	<u>76,000</u>	<u>-</u>	<u>76,000</u>

The following is a summary of General Long-Term Debt to maturity:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006/2007	41,614	8,506	50,120
2007/2008	42,508	7,406	49,914
2008/2009	77,806	4,674	82,480
2009/2010	21,000	4,200	25,200
2010/2011	23,000	3,975	26,975
2012/2016	99,000	16,100	115,100
2017/2021	78,000	9,300	87,300
2022/2026	59,000	1,950	60,950
Total	<u>441,928</u>	<u>56,111</u>	<u>498,039</u>

FERRON CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Proprietary

Sewer Revenue Bond:

Sewer Revenue Bond, payable to Farmers Home Administration, dated July 22, 1974; bearing interest rate of 5% per annum; payable in monthly installments of \$608, including interest, through June 2014. The original amount of the bond was \$125,000. The balance at year end was \$42,570.

The following is a statement of debt service charges to maturity:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006/2007	5,205	2,091	7,296
2007/2008	5,465	1,831	7,296
2008/2009	5,738	1,558	7,296
2009/2010	6,028	1,268	7,296
2010/2011	6,289	1,007	7,296
2012/2016	<u>13,845</u>	<u>747</u>	<u>14,592</u>
Total	<u><u>42,570</u></u>	<u><u>8,502</u></u>	<u><u>51,072</u></u>

The following is a summary of total Long-Term Debt to maturity:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006/2007	46,819	10,597	57,416
2007/2008	47,973	9,237	57,210
2008/2009	83,544	6,232	89,776
2009/2010	27,028	5,468	32,496
2010/2011	29,289	4,982	34,271
2012/2016	112,845	16,847	129,692
2017/2021	78,000	9,300	87,300
2022/2026	<u>59,000</u>	<u>1,950</u>	<u>60,950</u>
Total	<u><u>484,498</u></u>	<u><u>64,613</u></u>	<u><u>549,111</u></u>

FERRON CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 5 - LONG-TERM DEBT (CONTINUED)

The following is a schedule of changes in long-term debt payable:

	Date of Issue	Interest Rate	Total Issued	Outstanding June 30, 2005	Current Year Changes		Outstanding June 30, 2006
					Issued	Matured	
Governmental:							
Lease Purchase Agreements:							
Golf Carts	2003	5.6%	140,000	100,913	-	15,301	85,612
Fairway Mower	2004	4.4%	23,075	17,773	-	4,457	13,316
CIB Lease Revenue Bonds	1993	0%	185,500	81,000	-	9,000	72,000
CIB Revenue Bonds	2005	2.5%	202,857	202,857	-	7,857	195,000
CIB Revenue Bonds	2005	0%	76,000	76,000	-	-	76,000
Total Governmental			627,432	478,543	-	36,615	441,928
Proprietary:							
Sewer Revenue Bonds:							
FHA	1974	5%	125,000	47,527	-	4,957	42,570
Total Proprietary			125,000	47,527	-	4,957	42,570
Total Long-Term Debt			752,432	526,070	-	41,572	484,498

FERRON CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 6 - SPECIAL REVENUE FUND

Golf Course:

During 1991/92 Ferron City elected to account for the operations of the golf course in a special revenue fund. The following is a summary of the activity during the current fiscal year:

Revenues:	
Green Fees	87,254
Golf Cart Fees	43,883
Other Revenues	<u>20,282</u>
Total Revenues	<u>151,419</u>
Expenditures:	
Salaries and Wages	67,232
Benefits	33,360
Equipment Supplies and Maintenance	4,189
Utilities	7,379
Telephone	1,871
Fuel	4,050
Water Expenses	12,200
Other	16,685
Capital Outlay	3,458
Lease Payments	<u>25,344</u>
Total Expenditures	<u>175,768</u>
Excess of Revenues Over (Under) Expenditures	<u>(24,349)</u>
Other Financing Sources (Uses):	
Transfer from General Fund	21,500
Transfer from Emery County Recreation Board	<u>9,000</u>
Total Other Financing Sources (Uses)	<u>30,500</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	6,151
Fund Balance - Beginning of Year	<u>39,240</u>
Fund Balance - End of Year	<u><u>45,391</u></u>

FERRON CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 6 - SPECIAL REVENUE FUND (CONTINUED)
Municipal Building Authority of Ferron City:

The following is a statement of receipts and disbursements in Building Authority Special Revenue Fund:

Fund Balance - Beginning of Year		45,275
Receipts:		
Lease Revenue	24,000	
Interest Earned	<u>141</u>	
Total Receipts		24,141
Disbursements:		
Administrative Expenses	(5,816)	
Debt Service Principal	(9,000)	
Other Costs	<u>(818)</u>	
Total Disbursements		<u>(15,634)</u>
Fund Balance - End of Year		<u><u>53,782</u></u>

NOTE 7 - CLASS C ROAD - RESERVED FUND BALANCE

The following is a statement of receipts and disbursements in Class C Roads:

Reserved Fund Balance - Beginning of Year		-
Receipts:		
State of Utah Allotments	73,988	
Interest	<u>1,110</u>	
Total Receipts		75,098
Disbursements:		
Construction and Maintenance		<u>(75,098)</u>
Reserved Fund Balance - End of Year		<u><u>-</u></u>

FERRON CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 8 - PERPETUAL CARE FUND

The following is a statement of receipts and disbursements in the Perpetual Care Fund:

Fund Balance - Beginning of Year	42,850
Receipts:	
Perpetual Care Payments	3,588
Disbursements	<u>-</u>
Fund Balance - End of Year	<u><u>46,438</u></u>

NOTE 9 - TRANSFERS

<u>Description</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	-	21,500
Golf Course	<u>21,000</u>	<u>-</u>
	<u><u>21,000</u></u>	<u><u>21,500</u></u>

Transfers were made for the following purposes:

- * The General Fund transferred \$21,500 to the golf course for operating capital.

NOTE 10 - RISK MANAGEMENT

Ferron City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries and disasters. The City is insured through the Utah Local Governments Trust for general liability coverage. The limits of coverage is \$2,000,000 with no deductible for each occurrence for both comprehensive general liability and automobile liability. Uninsured motorist has a \$50,000 limit per each accident.

The City is also insured through the Utah local Governments Trust for property coverage. This policy provides All Risk coverage with a \$1,000 deductible for buildings, contents and contractors equipment.

Claims have not exceeded coverage in any of the last three calendar years.

FERRON CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2006

NOTE 11 - PENSION PLAN

Local Governmental - Cost Sharing:

Plan Description:

Ferron City contributes to the Local Governmental Noncontributory Retirement System which is a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). The System provides refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Act in Chapter 49 provides for the administration of the Utah Retirement Systems and plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that included financial statements and required supplementary information for the State and School Contributory Retirement System and State and School Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy:

Ferron City is required to contribute a percent of covered salary to the following system; 11.09% to the Noncontributory System. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Ferron City contributions to the various systems for the years ending June 30, 2006, 2005 and 2004 respectively were; for the Noncontributory System, \$16,299.12, \$16,844.46 and \$13,839.68. The contributions were equal to the required contributions for each year.

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is used to assist in formatting, for easier reading)

**REQUIRED SUPPLEMENTARY
INFORMATION
"UNAUDITED"**

**FERRON CITY
CONDITION RATING OF THE CITY'S ROAD SYSTEM**

For The Fiscal Year Ended June 30, 2006

Percentage of Lane-Miles in Good or Better Condition:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Paved	95	92	91
Gravel	90	90	89
Dirt	100	88	87
Overall System	95	90	89
Curb and Gutter	90	85	86
Sidewalks	85	80	81
Bridges	95	90	90

Percentage of Lane-Miles in Substandard Condition:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Paved	5	4	5
Gravel	10	8	9
Dirt	0	10	9
Overall System	5	7	8
Curb and Gutter	10	5	6
Sidewalks	15	5	5
Bridges	5	4	4

Comparison of Needed-to-Actual Maintenance/Preservation - Roads and Bridges:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Estimated	100,000	70,000	90,000
Actual	77,000	66,000	75,000

The condition of road pavement is measured using the American...(AASHTO) pavement management system, which is based on stress factors found in pavement surfaces. The AASHTO pavement management system uses a measurement scale that is based on a condition index ranging from zero for a failed pavement to 100 for a pavement in perfect condition. The condition index is used to classify roads in good condition (70-100), fair condition (50-69), and substandard condition (less than 50). It is the City's policy to maintain at least 60 percent of its road system at a good or better condition level. No more than 15 percent should be in substandard condition. Condition assessments are determined every year.

This schedule only presents the information for the last three years. GASB standards require reporting the last three complete condition assessments and needed-to-actual information for 5 years. However, the City implemented these new standards in 2004, and did not collect this information for the prior years. The City will continue to collect and retain this information so that over a period of five years it will be able to report the required information.

The condition of the City's bridges is determined using its Bridge Management and Inspection Program (BMIP). The bridge condition rating, which is a weighted average of an assessment of the ability of individual components to function structurally, uses a numerical condition scale ranging from 1.0 (impaired or load restricted) to 7.0 (new). It is the City's policy to keep the number and square footage of deck area of bridges with a condition rating of 1.0 to 1.9 below 1 percent. All bridges are inspected every two years.

**FERRON CITY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For The Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u> <u>(See Note A)</u>	<u>Variance With</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary Fund Balance, July 1, 2005	<u>69,397</u>	<u>69,367</u>	<u>69,367</u>	<u>-</u>
Resources (Inflows):				
Taxes:				
General Property Taxes	53,296	53,296	54,393	1,097
Delinquent Prior Years Taxes	2,500	2,500	3,406	906
Fee-In-Lieu	15,704	15,704	19,491	3,787
General Sales and Use Taxes	125,000	125,000	152,690	27,690
Franchise Taxes	<u>9,700</u>	<u>9,700</u>	<u>10,648</u>	<u>948</u>
Total Taxes	<u>206,200</u>	<u>206,200</u>	<u>240,628</u>	<u>34,428</u>
Licenses and Permits:				
Business Licenses	2,500	2,500	2,780	280
Building Permits	800	200	223	23
Animal Control	<u>700</u>	<u>700</u>	<u>829</u>	<u>129</u>
Total Licenses and Permits	<u>4,000</u>	<u>3,400</u>	<u>3,832</u>	<u>432</u>
Intergovernmental Revenue:				
State Liquor Allotment	1,000	1,000	1,206	206
Federal Grants	3,000	7,005	16,355	9,350
State Grants	-	14,232	14,232	-
Class C Road	<u>77,000</u>	<u>77,000</u>	<u>73,988</u>	<u>(3,012)</u>
Total Intergovernmental Revenue	<u>81,000</u>	<u>99,237</u>	<u>105,781</u>	<u>6,544</u>
Charges for Services:				
Cemetery Fees	2,000	1,500	1,537	37
Utility Administrative Fees	97,197	97,197	97,197	-
Peach Days	<u>28,300</u>	<u>20,485</u>	<u>21,398</u>	<u>913</u>
Total Charges for Services	<u>127,497</u>	<u>119,182</u>	<u>120,132</u>	<u>950</u>
Other Revenue:				
Interest	4,300	14,423	18,766	4,343
Other Unclassified	-	20,514	20,739	225
Fund Balance	<u>7,000</u>	<u>24,717</u>	<u>-</u>	<u>(24,717)</u>
Total Miscellaneous Revenue	<u>11,300</u>	<u>59,654</u>	<u>39,505</u>	<u>(20,149)</u>
Amounts Available for Appropriation	<u>499,394</u>	<u>557,040</u>	<u>579,245</u>	<u>22,205</u>

**FERRON CITY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For The Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (See Note A)	Variance With Final Budget Positive (Negative)
	Original	Final		
Charges to Appropriations (Outflows):				
General Government:				
Mayor and Council	28,500	23,900	22,399	1,501
City Treasurer	41,000	45,000	42,212	2,788
Central Purchasing	32,500	28,050	26,062	1,988
City Recorder	55,500	59,500	58,026	1,474
Professional Fees	1,000	8,000	6,732	1,268
Non-Departmental	11,500	11,300	5,540	5,760
Elections	-	1,500	1,316	184
Building and Grounds	42,000	24,500	22,361	2,139
Planning and Zoning	2,000	1,300	965	335
Total General Government	214,000	203,050	185,613	17,437
Public Safety:				
Fire Department	33,550	47,232	58,946	(11,714)
Police Department	500	1,206	1,206	-
Animal Control	500	1,500	795	705
Total Public Safety	34,550	49,938	60,947	(11,009)
Highway and Public Improvements:				
Highways and Streets	84,887	-	-	-
Shop and Garage	3,800	-	-	-
Class C Road	12,000	120,000	111,870	8,130
Total Highways and Public Improvements	100,687	120,000	111,870	8,130
Culture and Recreation:				
Parks	32,300	14,800	13,766	1,034
Fairgrounds	13,760	25,800	22,533	3,267
Peach Days	-	22,485	19,410	3,075
Cemetery	14,200	17,100	15,887	1,213
Total Culture and Recreation	60,260	80,185	71,596	8,589
Nondepartmental:				
Transfers Out	20,500	34,500	21,500	13,000
Total Charges to Appropriations	429,997	487,673	451,526	36,147
Budgetary Fund Balance - June 30, 2006	69,397	69,367	127,719	58,352

**FERRON CITY
BUDGETARY COMPARISON SCHEDULE
GOLF COURSE**

For The Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance With</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>(See Note A)</u>	<u>Positive</u> <u>(Negative)</u>
Budgetary Fund Balance, July 1, 2005	<u>39,240</u>	<u>39,240</u>	<u>39,240</u>	<u>-</u>
Resources (Inflows):				
Golf Cart Revenue	36,465	43,800	43,883	83
Golf Fees	74,035	79,700	87,255	7,555
Miscellaneous	11,050	28,687	29,281	594
Transfers In	<u>20,500</u>	<u>33,500</u>	<u>21,500</u>	<u>(12,000)</u>
Amounts Available for Appropriation	<u>181,290</u>	<u>224,927</u>	<u>221,159</u>	<u>(3,768)</u>
Charges to Appropriations (Outflows):				
Salaries and Benefits	86,900	43,100	42,032	1,068
Materials and Supplies	19,140	112,177	104,934	7,243
Debt Service	-	25,410	25,344	66
Capital Outlay	25,010	5,000	3,457	1,543
Transfers Out	<u>11,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Charges to Appropriations	<u>142,050</u>	<u>185,687</u>	<u>175,767</u>	<u>9,920</u>
Budgetary Fund Balance - June 30, 2006	<u><u>39,240</u></u>	<u><u>39,240</u></u>	<u><u>45,392</u></u>	<u><u>6,152</u></u>

**FERRON CITY
NOTE A
BUDGETARY COMPARISON SCHEDULE
BUDGET-TO-GAAP RECONCILIATION**

For The Fiscal Year Ended June 30, 2006

	<u>General Fund</u>	<u>Golf Course</u>
Sources/Inflows and Resources:		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedules.	579,245	221,159
Differences - Budget to GAAP:		
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(69,367)	(39,240)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	<u>-</u>	<u>(21,500)</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u><u>509,878</u></u>	<u><u>160,419</u></u>
Uses/Outflows of Resources:		
Actual amounts (budgetary Basis "total charges to appropriations" from the budgetary comparison schedules.	451,526	175,767
Differences - Budget to GAAP:		
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	<u>(21,500)</u>	<u>-</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u><u>430,026</u></u>	<u><u>175,767</u></u>

COMBINING FINANCIAL STATEMENTS AND SCHEDULES

**FERRON CITY
NONMAJOR GOVERNMENTAL FUNDS**

For The Fiscal Year Ended June 30, 2006

SPECIAL REVENUE FUND

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Municipal Building Authority:

The Municipal Building Authority Fund is used to construct public facilities in the City and to pay the indebtedness related to the cost of those facilities.

CAPITAL PROJECT FUND

Capital Project Fund:

This fund is used to construct public facilities in the City and to pay the indebtedness related to the cost of those facilities.

PERMANENT FUND

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Perpetual Care Fund:

This fund is used to account for principal trust amounts received and related interest income. The interest portion of the trust can be used to maintain the community cemetery.

**FERRON CITY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2006

	<u>Municipal Building Authority</u>	<u>Capital Projects</u>	<u>Permanent Fund Perpetual Care</u>	<u>Total Nonmajor Government Funds</u>
ASSETS				
Investments - Unrestricted	<u>53,782</u>	<u>88,519</u>	<u>46,438</u>	<u>188,739</u>
TOTAL ASSETS	<u><u>53,782</u></u>	<u><u>88,519</u></u>	<u><u>46,438</u></u>	<u><u>188,739</u></u>
LIABILITIES AND FUND BALANCES				
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Unreserved, Reported in:				
Perpetual Care Fund	-	-	46,438	46,438
Special Revenue Fund	53,782	-	-	53,782
Capital Project Fund	<u>-</u>	<u>88,519</u>	<u>-</u>	<u>88,519</u>
Total Fund Balances	<u><u>53,782</u></u>	<u><u>88,519</u></u>	<u><u>46,438</u></u>	<u><u>188,739</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>53,782</u></u>	<u><u>88,519</u></u>	<u><u>46,438</u></u>	<u><u>188,739</u></u>

FERRON CITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

For The Year Ended June 30, 2006

	Municipal Building Authority	Capital Projects	Permanent Fund Perpetual Care	Total Nonmajor Government Funds
Revenues:				
Interest Earnings	141	-	-	141
Miscellaneous	<u>24,000</u>	<u>-</u>	<u>3,589</u>	<u>27,589</u>
Total Revenues	<u>24,141</u>	<u>-</u>	<u>3,589</u>	<u>27,730</u>
Expenditures:				
Current:				
Streets and Improvements	-	3,323	-	3,323
Parks and Recreation	5,816	-	-	5,816
Debt Service:				
Principal	9,000	-	-	9,000
Interest	<u>818</u>	<u>-</u>	<u>-</u>	<u>818</u>
Total Expenditures	<u>15,634</u>	<u>3,323</u>	<u>-</u>	<u>18,957</u>
Net Change in Fund Balance	8,507	(3,323)	3,589	8,773
Fund Balances - Beginning	<u>45,275</u>	<u>91,842</u>	<u>42,849</u>	<u>179,966</u>
Fund Balances - Ending	<u>53,782</u>	<u>88,519</u>	<u>46,438</u>	<u>188,739</u>

COMPLIANCE SECTION

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Council
Ferron City
Ferron, Utah 84523

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Ferron City as and for the year ended June 30, 2006, which collectively comprise Ferron City's basic financial statements and have issued our report thereon dated July 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ferron City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

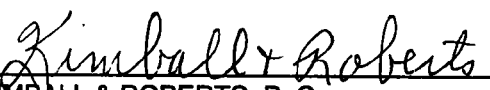
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ferron City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Ferron City in a separate letter dated July 20, 2006

Honorable Mayor and City Council
Ferron City
Page -2-

This report is intended solely for the information and use of management and City Council and is not intended to be and should not be used by anyone other than these specified parties.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

July 20, 2006
Richfield, Utah

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

Honorable Mayor and City Council
Ferron City
Ferron, Utah 84523

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Ferron City, for the fiscal year ended June 30, 2006, and have issued our report thereon dated July 20, 2006. As part of our audit, we have audited Ferron City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the fiscal year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

C Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

The City also received the following nonmajor grants, which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of Blanding City's financial statements.)

Equipment Grant (Department of Community and Economic Development)
Arbor Day Grant (Department of State Lands and Forestry)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the Compliance Manual for Audits of Local Governments in Utah including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Property Tax
Other Compliance Requirements

The management of Ferron City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Honorable Mayor and City Council
Ferron City
Page -2-

The results of our audit procedures disclosed an immaterial instance of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered this instance of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Ferron City, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance programs for the fiscal year ended June 30, 2006.


KIMBALL & ROBERTS, P. C.
Certified Public Accountants

July 20, 2006
Richfield, Utah

**FERRON CITY
MANAGEMENT LETTER
JUNE 30, 2006**

Kimball & Roberts

Certified Public Accountants

A Professional Corporation

Box 663

Richfield, Utah 84701

Phone 896-6488

Honorable Mayor and City Council
Ferron City
Ferron, Utah 84523

During our audit of the funds of Ferron City for the fiscal year ended June 30, 2006, we noted an area needing corrective action in order for the City to be in compliance with state laws and regulations. This item is discussed below for your consideration.

COMPLIANCE:

Fund Balance

Utah Code 10-6-116(2) states that the maximum unreserved fund balance in the general fund may not exceed 18% of the total estimated revenue of the general fund.

Finding:

During our audit we noted that the City has excess fund balance as allowed by State law.

Recommendation:

We recommend that the city reduce its unreserved fund balance to comply with the requirements of State Law. Budgeting and expending the excess fund balance or transferring the excess fund balance to a capital project fund for planned capital projects may accomplish this.

Response:

We have discussed this finding with management and management agrees with the recommendation.

We would like to take this opportunity to thank Ferron City's personnel for the cooperation and assistance given to us during the course of our examination.

Respectfully submitted,

KIMBALL & ROBERTS, P. C.
Certified Public Accountants

July 20, 2006
Richfield, Utah